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Independent Auditor's Report

Board of Directors
Truro Homes Association
Annandale, Virginia

We have audited the accompanying statements of Assets and Equity arising from cash transactions of Truro Homes Association as of December 31, 2005 and 2004, and the related statements of Revenue and Expenses, and Changes in Members' Equity for the years then ended. These financial statements are the responsibility of the Association. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Association, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2, these financial statements were prepared on the basis of cash receipts and disbursements, which are a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the Assets and Equity arising from cash transactions of Truro Homes Association as of December 31, 2005 and 2004, and its Revenue and Expenses, and Changes in Members' Equity during the years the ended, on the basis of accounting described in Note 2.

The supplementary information on future major repairs and replacements on page 8 is not a required part of the basic financial statements of Truro Homes Association, but is supplementary information required by the American Institute of Certified Public Accountants. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

March 13, 2006

Goldklang Cavanaugh & Associates, P.C.

TRURO HOMES ASSOCIATION
STATEMENTS OF ASSETS AND EQUITY
DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 35,199	\$ 52,737
Investments	<u>394,791</u>	<u>321,891</u>
Total Assets	<u>\$ 429,990</u>	<u>\$ 374,628</u>
<u>MEMBERS' EQUITY</u>		
Replacement Reserves	\$ 431,258	\$ 377,762
Unappropriated Members' Equity (Deficit)	<u>(1,268)</u>	<u>(3,134)</u>
Total Members' Equity	<u>\$ 429,990</u>	<u>\$ 374,628</u>

See Accompanying Notes to Financial Statements

TRURO HOMES ASSOCIATION
STATEMENTS OF REVENUE AND EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005			2004		
	THA	TCC	Total	THA	TCC	Total
INCOME:						
Assessments	\$ 73,685	\$ 136,049	\$ 209,734	\$ 63,750	\$ 125,845	\$ 189,595
Interest	9,586		9,586	3,597		3,597
TCC Lease		6,274	6,274		12,777	12,777
Other	2,289	5,712	8,001	1,493	2,695	4,188
Total Income	<u>\$ 85,560</u>	<u>148,035</u>	<u>\$ 233,595</u>	<u>\$ 68,840</u>	<u>\$ 141,317</u>	<u>\$ 210,157</u>
EXPENSES:						
Record Keeper	\$ 3,000	\$ 3,000	\$ 6,000	\$ 3,000	\$ 3,000	\$ 6,000
Treasurer	1,500	1,500	3,000	1,500	1,500	3,000
Legal and Audit	2,748		2,748	4,423		4,423
Insurance	16,801	6,300	23,101	15,348	5,756	21,104
ACC Compliance	7,235		7,235	-		-
Consulting	1,971		1,971	3,750		3,750
Internet Site	475		475	439		439
Office Supplies	2,977		2,977	3,313		3,313
Publicity and Newsletter	3,451		3,451	3,575		3,575
Membership Fees	440		440	320		320
Gas		1,935	1,935		1,692	1,692
Telephone	567	1,240	1,807	549	1,270	1,819
Electricity		3,069	3,069		2,733	2,733
Water and Sewer		1,817	1,817		2,244	2,244
Storm Damage	-		-	8,105		8,105
Parkland Maintenance	12,638		12,638	12,110		12,110
Landscaping		12,661	12,661		13,878	13,878
Facility Maintenance		2,921	2,921		3,800	3,800
Swim and Dive Team		9,983	9,983		9,781	9,781
Gatekeeper		720	720		720	720
Repairs and Maintenance		14,412	14,412		17,292	17,292
Social Activities	600		600	1,424		1,424
Chemicals and Supplies		9,544	9,544		8,522	8,522
Pool Management		47,560	47,560		46,450	46,450
Pool Furniture		-	-		1,684	1,684
Security	1,571		1,571			-
Taxes, Permits and Licenses	857		857	838		838
Total Expenses	<u>\$ 56,831</u>	<u>\$ 116,662</u>	<u>\$ 173,493</u>	<u>\$ 58,694</u>	<u>\$ 120,322</u>	<u>\$ 179,016</u>
Net Income before Contribution to Reserves and Interest Contribution to Reserves	\$ 28,729	\$ 31,373	\$ 60,102	\$ 4,480	\$ 26,751	\$ 31,231
Contribution to Reserves	(16,800)	(31,850)	(48,650)	(14,700)	(27,300)	(42,000)
Interest Contribution to Reserves	(9,586)		(9,586)	(3,597)		(3,597)
Net Income (Loss)	<u>\$ 2,343</u>	<u>\$ (477)</u>	<u>\$ 1,866</u>	<u>\$ (13,817)</u>	<u>\$ (549)</u>	<u>\$ (14,366)</u>

TRURO HOMES ASSOCIATION
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>Replacement Reserves</u>	<u>Unappropriated Members' Equity (Deficit)</u>	<u>Total Members' Equity</u>
Balance as of December 31, 2003	\$ 375,635	\$ 11,232	\$ 386,867
Additions:			
Contribution to Reserves	42,000		42,000
Interest Contribution to Reserves	3,597		3,597
Deductions:			
Reserve Expenditures	(43,470)		(43,470)
Net Loss		(14,366)	(14,366)
Balance as of December 31, 2004	\$ 377,762	\$ (3,134)	\$ 374,628
Additions:			
Contribution to Reserves	48,650		48,650
Interest Contribution to Reserves	9,586		9,586
Net Income		1,866	1,866
Deduction:			
Reserve Expenditures	(4,740)		(4,740)
Balance as of December 31, 2005	<u>\$ 431,258</u>	<u>\$ (1,268)</u>	<u>\$ 429,990</u>

See Accompanying Notes to Financial Statements

TRURO HOMES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

NOTE 1 - NATURE OF OPERATIONS:

The Association is organized under the laws of the Commonwealth of Virginia for the purpose of maintaining and preserving the common property of the Association. It is located in Annandale, Virginia and consists of 377 homes. The Association's Board of Directors administers the Association operations.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

A) Method of Accounting - The financial statements are presented on the cash basis of accounting in which revenues are recognized when received and expenses when paid, rather than when earned or incurred. The Association's income statement is divided into two columns to separately reflect the activity for the general operations of the Association and the recreational facilities. Those categories are as follows:

- THA (Truro Homes Association) - This fund is used to account for financial resources available for the general operations of the Association.
- TCC (Truro Community Center) - This fund is used to account for financial resources available for the general operation of the recreational facilities of Truro Community Center.

B) Member Assessments - Association members are subject a one time assessment to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements.

C) Common Property - Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because those properties are owned by the individual unit owners in common and not by the Association. Common property includes, but is not limited to, the land and recreational facilities.

D) Cash Equivalents - For purposes of the statement of cash flows, the Association considers all highly liquid investments and interest-bearing deposits with an original maturity date of three months or less to be cash equivalents.

E) Reclassifications - Certain amounts have been reclassified in the accompanying 2004 financial statements to conform to the 2005 presentation.

NOTE 3 - REPLACEMENT RESERVES:

The Association's governing documents do not require that funds be accumulated for future major repairs and replacements; however, the Association has elected to set aside funds for replacement reserves. Accumulated funds are generally not available for expenditures for normal operations.

TRURO HOMES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(CONTINUED)

NOTE 3 - REPLACEMENT RESERVES: (CONTINUED)

The Association had a replacement reserve study conducted by an engineer during 2004 and utilizes the component method of funding for replacement reserves. The table included in the Supplementary Information on Future Major Repairs and Replacements is based on this study.

The Association is funding for future major repairs and replacements over the remaining useful lives of the components based on the study's estimates of the replacement costs and considering amounts previously accumulated in the replacement reserves. Accordingly, the funding recommendation of \$48,650 (approximately \$11 per home per month) from assessments has been included in the 2005 financial statements. Additionally, during 2005, the Association also contributed \$9,586 of interest to replacement reserves.

Funds are being accumulated in replacement reserves based on the replacement reserve study. Actual expenditures may vary from the estimated future expenditures and the variations may be material; therefore, amounts accumulated in the replacement reserves may or may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association may increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

As of December 31, 2005 and 2004, the Association had designated \$431,258 and \$377,762, respectively, for replacement reserves. These designated reserves were not fully funded due to a deficit in unappropriated members' equity.

NOTE 4 - INCOME TAXES:

The Association is a non-stock, nonprofit association that holds tax-exempt status under Section 501(c)(4) of the Internal Revenue Code. No provision for income taxes is required, since the Association has no unrelated business income.

NOTE 5 - CASH AND INVESTMENTS:

As of December 31, 2005, the Association maintained its funds in the following manner:

<u>Institution</u>	<u>Type Account</u>	<u>Cash and Cash Equivalents</u>	<u>Investments</u>	<u>Total</u>
PNC	Checking	\$ 13,110	\$ -	\$ 13,110
United	Money Market	22,089		22,089
U.S. Government	Treasury Bills (5)		<u>394,791</u>	<u>394,791</u>
	Totals	<u>\$ 35,199</u>	<u>\$ 394,791</u>	<u>\$ 429,990</u>

TRURO HOMES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(CONTINUED)

NOTE 5 - CASH AND INVESTMENTS: (CONTINUED)

It is the intent of the Association to hold all investments in debt securities to maturity. As of December 31, 2005, the market value of the U.S. Government treasury bills approximated cost.

NOTE 6 - RELATED PARTY TRANSACTION:

During 2005 and 2004, the Association paid two members of the Association for their services as treasurer and record keeper. For 2005 and 2004, the Association paid \$3,000 per year for Treasury service. In addition, for 2005 and 2004 the Association paid \$6,000 and \$6,000, respectively, for record keeping.

NOTE 7 - CLUBHOUSE RENOVATION:

During 2005, the Association approved a contract in the amount of \$180,600 for clubhouse renovation. The project is expected to be completed by April 1, 2006 and will be funded through replacement reserves.

TRURO HOMES ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2005
(UNAUDITED)

The Association had a replacement reserve study conducted by an engineer in 2004 to estimate the remaining useful lives and the replacement costs of the components of common property. The Association utilizes the component method of funding for replacement reserves. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated replacement costs do not take into account the effects of inflation between the date of the study and the date the components will require repair or replacement.

The following has been extracted from the Association's replacement reserve study and presents significant information about the components of common property.

<u>Component</u>	<u>2004 Estimated Remaining Useful Life (Years)</u>	<u>2004 Estimated Replacement Cost</u>
Asphalt	1-19	\$ 195,075
Site Features	6-25	29,168
Bridges	9-15	35,756
Tot Lots	15-20	23,895
Recreation Features	3-28	109,449
Pool	2-28	310,725
Clubhouse Exterior	1-21	102,473
Clubhouse Interior	4-21	80,402